

VERMONT STATE TEACHERS' RETIREMENT SYSTEM

Meeting of the Board of Trustees

June 15, 2005

Board Members present:

JOSEPH MACKEY, Chairperson (Active No. 29334), term expiring July 1, 2009

JON HARRIS, Vice-Chairperson (Active No. 25669), term expiring July 1, 2007 – **arrived later**

JAY KAPLAN, Association of Retired Teachers of Vermont, term expiring July 1, 2008

THOMAS CANDON, representing Commissioner of BISHCA

VAUGHN ALTEMUS, representing Commissioner of Education

JEB SPAULDING, VT State Treasurer

Also attending:

Elizabeth Pearce, Deputy Treasurer

Cynthia Webster, Director of Retirement Operations

David Minot, Director of Investment Services

Bill Rice, Director of Law and Policy

Rita Rinehart, Association of Retired Teachers of Vermont

William Griffin, Chief Assistant Attorney General

Mike McShane, Assistant Attorney General

Rich Stover, Buck Consultants – via conference call

The Chairperson, Joe Mackey, called the meeting to order at 12:05 p.m. on Wednesday, June 15, 2005, held in the Ethan Allen Room behind the Capital cafeteria, Montpelier, Vermont.

ITEM 1: Board Action Items

- A. Approval of the Minutes of May 18, 2005

On a motion by Mr. Kaplan seconded by Mr. Altemus, the Board unanimously voted to approve the minutes of May 18, 2005, with the following amendment:

Page 3, Item 2A, paragraph 3... indemnify against losses in future contracts, ***which could jeopardize the corpus of the fund.***

- B. Ratify the Disability Retirement for: Mary Giuffre

On a motion by Mr. Kaplan seconded by Mr. Altemus, the Board unanimously voted to ratify the ballot votes approving the disability retirement for Mary Giuffre, as recommended by the Medical Review Board.

With the Board's permission the following items were taken out of order.

Mr. Harris arrived during the next item.

ITEM 2: Deputy Treasurer's Report

A. Retirement IT Outsourcing – Follow-up

At the request of Board members, Ms. Pearce reviewed outsourcing activities completed by Gabriel, Roeder, Smith & Co. (GRS) for retirement systems in Michigan. Ms. Pearce had previously reported on the retirement re-engineering project conducted by the Office of Retirement System for the State of Michigan. This request related to services provided by GRS to the Municipal Employees' Retirement System of Michigan (MERS). Ms. Pearce reported that GRS does not provide outsourcing services to MERS. They are, however, building a customized computer system for MERS. -

B. Actuary Audit RFP Requirements – Follow-up

Ms Pearce reported that a shortened RFP would be conducted for the actuarial audit requested by the Board. All firms submitting proposals for the actuarial services RFP, excluding Buck, which was awarded the ongoing actuarial services contract and is therefore not eligible, will be invited to participate. This group includes five firms. Since Buck will complete the annual valuation using updated software, the audit will be scheduled after that task is completed. The RFP process will take place in September with the audit scheduled to take place between October and December.

C. SDIA Third Party Administrator Contract – Follow-up

Ms. Pearce reported that three RFP responses were received; and upon review, Great-West Retirement Services was judged to be the most responsive to the needs of the system. Ms. Pearce explained the current SDIA administration involved a three-way partnership between the current record keeper, fund custodian, and Treasurer's Office staff. She said the goal of the third party administration was to consolidate services, and provide "one-stop-shopping" for SDIA Plan participants. The Board reviewed a June 15, 2005 cost analysis prepared by Mr. Minot.

On a motion by Mr. Candon seconded by Mr. Spaulding, the Board unanimously voted to direct the Treasurer's Office to enter into contract negotiations with Great-West Retirement Services for the purpose of providing full-service, third party administration for the SDIA Plan, contingent upon approval by the Vermont State Employees' Retirement System Board.

D. Budget Comparison FY '02 vs. FY '04 – Follow-up

Ms. Pearce responded to a request to provide FY02 and FY04 comparative expenditure data. Ms. Pearce explained that, after review, it was her opinion that gross, aggregate, numbers would not provide a great deal of comparative information but they would be provided. Detail data for FY02 is not particularly reliable given some of the posting issues associated with the first year of the state's conversion to the VISION system. In addition, staff reformatted the budget categories in a budget presentation adopted by the Board in December 2003. The Board did not object to Ms. Pearce providing gross numbers

In the meantime, Ms. Pearce stated that staff would continue to review the current cost-allocation system for retirement budgeting and report on those results at a later date. Ms Pearce also recommended that a

process to utilize performance measurement and benchmarking services to compare their progress with other comparable retirement systems would be beneficial.

ITEM 3: State Treasurer's Report

A. Unitization Proposal Update

Mr. Spaulding distributed a copy of H.117, which was signed by the Governor on June 7, 2005. He explained the only difference in this version that differs from the original submitted, was the composition of the Committee. He said as of July 1 the Trustees of all three retirements Boards would be the Trustees of all three funds. Mr. Spaulding advised the Board the first VPIC meeting will be held at the Capitol Plaza, is scheduled for July 12, 2005, and begin at 8:00 a.m.

B. AG's Office RFP re Class Actions Update

Mr. Spaulding advised the Board the Attorney General's Office issued an RFP seeking a firm to monitor class actions. Mr. Kaplan objected to the AG's Office RFP being released on behalf of the retirement system, without Board approval, and asked the Treasurer to have the RFP corrected. The Board briefly discussed their lack of knowledge regarding State Street Bank's performance in the area of class action litigation tracking, filing, etc.

C. Council of Institutional Investors Membership – Follow-up

Mr. Spaulding said the matter of membership would be better addressed at the VPIC level, advising that membership for the three systems would be more cost effective.

D. Legislative Matters

Mr. Spaulding distributed information regarding the *Conference Committee Report on Appropriations for the VSTRS in FY '06 Budget*. He explained an FY '05 waterfall appropriation of \$4 million would bring the funding level to \$24.4 million, consistent with the FY '04 funding level, and the FY '06 base appropriation was set at \$24.4 million.

The Board briefly discussed the Governor's consistent level and under funding despite rising actuarial recommendations, and imminent, dramatic recommendation as a result of GASB 43 & 45 requirements.

Mr. Spaulding distributed section 34b of the Budget Bill, which described the development of a *Commission on Funding the State Teachers' Retirement System of Vermont Pension Accumulation Fund*. He explained as Chair of the Commission, he would be moving forward as quickly as possible.

Mr. Spaulding distributed a copy of S.R.5, a Senate Resolution urging state and federal actions to punish the Sudanese government and corporations that conduct business in or with the Sudan. He said he was not sure of the status of the resolution, however, in part it urged the Treasurer to work with the three retirement boards to implement a policy for divestiture from the Sudan. Mr. Spaulding will advise the

VPIC if and/or when official notification is received. In response to the Board's query, Mr. Griffin advised that mandatory compliance to Senate Resolutions was not required.

ITEM 4: Board Discussion Items

A. Social Security Part D Rebate Information

Rich Stover of Buck Consultants joined the meeting via conference call. Mr. Stover provided an overview of the SS Part D rebate explained the process. He said the subsidy application with other forms, actuary attestation, census files, etc. were due by October 31, 2005, and that retirees over 65 covered by the VSTRS health insurance plans would undoubtedly be eligible for the subsidy. He said there was some question regarding spousal subsidies in light of the system's non-payment toward spouses. Mr. Stover said the actuary attestation test of the plan would provide information regarding subsidy qualification in that area, and provided information for the Board to consider in potential FY '07 plan changes to the over 65 spousal coverage. He said preliminary results should be available within a month.

Mr. Stover explained to remain eligible, census data would have to be filed quarterly, and application filed annually. He said the system was obligated to communicate and educate retirees by November 15, 2005, and must provide each member with a *Certificate of Creditable Coverage* form, which could be adopted from the Center for Medicare & Medicaid Services (CMS) model form. The Board briefly discussed whether low-income retirees (150% of poverty level) would benefit from SS Part D,

B. Retiree Dental Coverage

Mrs. Webster said she would provide further information to the Board at a later date, however, advised that in prior inquiries that health insurance carriers were reluctant to offer dental coverage as an option, but would only offer if mandatory for all participants.

C. Tax Change Implications – H.64

Mrs. Webster advised the Board language clarification changes proposed by the Tax Department for §1946 and §1946(a) were not moved or acted upon, during the legislative session. The Board did not object to Mr. Kaplan's request for a legal opinion on whether current practice conflicted with §1946(a), and another section also related to taxations, to be identified by Mr. Kaplan.

D. Board Authority and Delegation

Mr. Griffin responded to Mr. Kaplan and Mr. Mackey's inquiry regarding system management, hiring/firing responsibility, etc., and general language in §1942 (a) *The general administration and the responsibility for the proper operation of the system and for making effective the provisions of this chapter are hereby vested in the board of trustees of the system, which shall be organized immediately after three of the trustees provided for in this section have qualified.*

Mr. Griffin advised that based on regular meetings of the Board and where decisions, policies, etc. are made, the day-to-day operations and administration of the system falls to the Treasurer and his staff to carry out the Board directives.

ITEM 5: Director of Retirement Operations Report

A. Legislative Update

Mrs. Webster advised the Board the Legislative Summer Committee, among other issues, looked at restructuring the medical plans in an effort to make the VSERS and VSTRS accessibility consistent. She said along with this issue some other items were included in a comprehensive bill, which was not supported by the Administration. Mrs. Webster said hopefully the bill would move forward next year.

B. Status of Draft Non-Licenses ROTC Trainer Policy

Mrs. Webster explained §1931(20), the definition of "Teacher", was changed in 1995, from "licensed in Vermont" to "licensed by the state board of education...". She said the Board had grandfathered school nurses several years ago, however in addition to ROTC trainers, physical and occupational therapists are have been enrolled in the system, in error.

The Board discussed, and Mr. McShane confirmed, the 1995 statute change superseded the Board's prior action to grandfather non-teaching school nurses. Mr. McShane provided some alternative remedies, and advice on how to proceed with statutory compliance, etc.

The Board discussed having staff gather information to determine the number of people in the system not licensed by the state board of education (SBE), the length of their membership, whether to include nurses or not in the fact-finding, and for Mrs. Webster to prepare a written recommendation for the Board to consider.

Mr. Kaplan made a motion seconded by Mr. Mackey, not to include school nurses in the Retirement Office fact-finding report.

Mr. Kaplan said he though school nurses, and/or their representative, deserved to be consulted and present their case before the Board before eliminating a potential benefit.

Mr. Spaulding said by voting against the motion did not mean he believed nurses should not be included in the system, it meant he wanted to have all inclusive, non-SBE licensed, membership data.

Mr. Altemus said his "no" vote to the motion would be based on the legal advise received from the Attorney General's office.

Motion failed, Mr. Mackey, Mr. Altemus, Mr. Spaulding, Mr. Candon, and Mr. Harris voted no. Mr. Kaplan voted yes.

The Board will examine the data, draft recommendation, and legal advice prior to the policy development.

ITEM 6: Travel Budget and Policy Review

Mrs. Webster distributed and the Board reviewed the FY '04 travel budget expenditures, and FY '05 and '06 adopted and proposed budgets. The Board agreed a member should submit agendas, estimated costs, etc. and must seek and received prior approval for travel. Mr. Spaulding suggested the travel budget be divided equally among the members to spend on travel (with prior approval) at the member's discursion, assuming all receipts were submitted. He said this kind of policy would allow flexibility for a member to attend as many conferences, etc. the member wishes, with the understanding reimbursement would depend on prior approval, and receipts. The Board discussed whether a member's unused funds would/should be released to other members, etc. The Board agreed to discuss the matter at a later date.

ITEM 7: Any Other Business to Come Before the Board

Mrs. Webster presented the Board with a letter dated 5/24/05 from Michael Marvin who was requesting the non-contractual, extra curricular salary, reported over the past three years but not the prior 17 years, be included in his retirement benefit calculations.

On a motion by Mr. Kaplan seconded by Mr. Altemus, the Board unanimously voted to uphold the Retirement Office determination to disallow non-contractual salary in a retirement benefit calculation, and deny the appeal to the Board.

Mrs. Webster presented the Board with a letter dated 6/9/05 from Robert DiFerdinando who was seeking a waiver of the 90-day filing deadline for a disability retirement.

Mr. Kaplan made a motion seconded by Mr. Harris, to approve the waiver request. Upon discussion, Mr. Kaplan withdrew his motion and Mr. Harris withdrew his second.

The Board agreed to table the matter and discuss at a meeting at a later date.

Mrs. Webster distributed June correspondence from and regarding Lyman Amsten, who would be stepping down from his position as superintendent on 6/30/05, to serve as the advisor to the interim and new superintendent for one-year. Mr. McShane and the Board discussed Mr. Amsden's request to seek confirmation that in his new "consultant capacity" he would be eligible once again to draw his pension.

On a motion by Mr. Kaplan seconded by Mr. Mackey, the Board voted to deny Mr. Amsden's access to the VSTRS pension benefits, pursuant to legal counsel. Mr. Kaplan, Mr. Mackey, Mr. Altemus, Mr. Candon, and Mr. Harris voted yes. Mr. Spaulding abstained.

Mr. Kaplan and Mr. Candon left the meeting.

Next Meeting Dates:

The next Vermont Investment Committee meeting is scheduled for July 12, 2005.
The next business meeting of the VSTRS is to be determined.

Adjournment:

On a motion by Mr. Altemus seconded by Mr. Harris, the Board unanimously voted to adjourn at 4:08 p.m.

Respectfully submitted,

Donna Holden, Board Coordinator
for
Cynthia Webster, Secretary to the Board